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C O N F I D E N T I A L SECTION 01 OF 02 SHENYANG 000250

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TAGS: CH FAIR ECON PREL

SUBJECT: CESSNA HOPES TO OPEN CHINA TO PRIVATE AVIATION

REF: A. SHENYANG 00048

¶B. SHENYANG 00171

Classified By: CONSUL GENERAL STEPHEN B.

WICKMAN. REASONS: 1.4(B), 1.4(D)

¶1. (U) Cessna Aircraft Corporation, as part of successful negotiations to contract with Shenyang Aircraft Corporation (SAC) to manufacture Cessna's new 162 Skycatcher Light Sport Aircraft (LSA), received assurances from Chinese officials that, by the time the aircraft rolls off the production line, China's skies will be open to private aviation, allowing Cessna to open China's domestic market. Cessna officials noted, however, that the primary target market for the Skycatcher remains the United States. Cessna hopes that the LSA, with a low price point of USD 110,000, will reinvigorate America's private aviation market.

COME FLY WITH ME

¶2. (C) At a private, SAC-hosted dinner for visiting Cessna officials, SAC Senior Vice-President Chen Yongman, who will lead the Cessna manufacturing program, assured Cessna that within three years China's skies would be open to domestic private aviation. He went on to report that SAC was forming a recreational aero club so that there would be a ready supply of qualified flying enthusiasts when the aircraft reached the market. Chen added that SAC would take personal responsibility in making sure that Beijing followed through on the open skies commitment.

¶3. (C) SAC's contract calls for production of 900 aircraft per year, with first-item delivery scheduled for late 2009. Doug Morales, who will have overall management responsibility of the project for Cessna in China, has already established a residence in Shenyang and begun to take a thorough look at SAC's facilities and procedures. Morales reported that there is still a lot of work to do, expressing dismay at SAC's lax quality-control procedures and its disregard for technical instruction. Morales told Econoff that SAC employees routinely substituted cheap construction fasteners for higher quality aircraft fasteners, which he said concerned him not only with regard to the Cessna program, but also because lots of SAC products were flying around with the wrong fasteners.

JOBS HERE AND THERE

¶4. (SBU) Responding to Econoff's query about attitudes in

Wichita to Cessna's China gambit, Cessna Senior Vice-president for Human Resources, Jim Walters, said the plan has gotten rave reviews from workers back home. He explained that Cessna wanted to make an aircraft comparable in price to high-end luxury sedans, something he said they couldn't do in the United States. Because of the China move, Cessna not only would be able to keep from reducing its workforce, but it had actually expanded the number of U.S. workers substantially. The expanded U.S. workforce was needed to build the aircraft engine and avionics packages that will be shipped to China for installation.

¶15. (SBU) According to Walter, this system of off-shoring the airframe construction and keeping the higher technology manufacturing at home substantially lessened the risk of losing proprietary information and technology. Finally, he said that making new airframes affordable would increase both the safety margins and access levels for private aviators.

EVENTUALLY IT WILL ALL GO SOUTH

¶16. (SBU) While Cessna's China operations will begin at SAC's existing facilities, the entire operation will ultimately move to the newly-designated Aviation Economic Development Zone south of Shenyang (reftel B). While Cessna officials had not been made aware of this plan prior to entering into the contract with SAC, Morales reported that he did not see a big problem in making the move. Like Cessna, Boeing's operations will also move to the new Zone. Boeing is actively involved in the start up process for the zone, which upon completion will be host to all of SAC's commercial

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lines, both domestic and foreign.

¶17. (SBU) Cessna plans to permanently locate five U.S.-hired personnel in Shenyang. The company has selected housing in the Sheraton Hotel building, which just happens to be convenient to the new zone. Morales said Cessna's HR chief had expressed concern about the status of Shenyang International School, which is the subject of frequent rumors of impending closure. Econoff explained that school officials hope to finally resolve their long-standing licensing problems in the near future and report that closure is therefore unlikely. We have encouraged Cessna and other U.S. firms to make the Shenyang and Liaoning authorities aware of the need to keep the school open and have advised their employees also to register with the consulate.

WICKMAN